Letsemeng Local Municipality

Annual Financial Statements
for the year ended 30 June 2019
Auditor-General of South Africa

General Information

Legal form of entity	A municipality, which is an organ of state within the local sphere of government exercising legislative and executive authority.
Nature of business and principal activities	A local authority providing municipal services and maintaining the best interest of the community in the Letsemeng municipal area.
Mayoral committee	
Mayor	Mrs TI Reachable (resignation: 4 March 2019)
Councillors	Mr SJ Bahumi (acting Mayor: 4 March 2019)
	Mr JDJ Barnes
	Mr MA Lebaka
	Mr MJ Phaliso
	Mr TS Moqhoishi
	Miss AN November
	Mr XW Nqelani
	Mr MC Ntemane
	Mr TV Nthapo
	Mr PV Mlozana
	Miss PM Dibe
Grading of local authority	Grade 2
Chief Finance Officer (CFO)	Mr SJ Tooi
Accounting Officer	Mr TL Mkhwane
Registered office	Civic Centre 7 Groottrek Street Koffiefontein 9986
Business address	Civic Centre 7 Groottrek Street Koffiefontein 9986
Postal address	Private Bag X3 Koffiefontein 9986
Bankers	First National Bank ABSA Bank
Auditors	Auditor-General of South Africa

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

	Page
Accounting Officer's Responsibilities and Approval	3
Accounting Officer's Report	4 - 5
Statement of Financial Position	6
Statement of Financial Performance	7
Statement of Changes in Net Assets	8
Cash Flow Statement	9
Statement of Comparison of Budget and Actual Amounts	10 - 12
Accounting Policies	13 - 42
Notes to the Annual Financial Statements	43 - 81

AGSA	Auditor-General of South Africa
CRR	Capital Replacement Reserve
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
Mscoa	Municipal Standard Chart of Accounts
SA GAAP	South African Statements of Generally Accepted Accounting Practice

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2020 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 30 August 2019 and were signed on its behalf by:

Mr TL Mkhwane
Accounting Officer

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2019.

1. Review of activities

Main business and operations

The Letsemeng Local Municipality is engaged in a local authority providing municipal services and maintaining the best interest of the community in the Letsemeng municipal area.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 45 053 911 (2018: deficit R 2 762 904).

2. Going concern

Management experienced cash flow difficulties during the financial period. Management considered the following matters relating to the going concern:

- The municipality's budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the annual financial statements on the going concern basis. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government will continue to fund the operations of the municipality through the provision of the equitable share, additionally the accounting officer will continue to tightly manage the cashflow of the municipality and where necessary procure funding for the ongoing operations for the municipality.

3. Subsequent events

The Accounting Officer is not aware of any matter or circumstances arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

The annual financial statements prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations issued by the Accounting Standards Board and Accounting Practices Board.

6. Non-current assets

There were no significant changes in the nature of the non-current assets of the municipality during the year.

7. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr TL Mkhwane	South African

Accounting Officer's Report

8. Corporate governance

General

The Accounting Officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the Accounting Officer supports the highest standards of corporate governance and the ongoing development of best practice.

Management meetings

The Accounting Officer meets the section 56 managers at least on a monthly basis.

Internal audit

The municipality has its own internal audit function. This is in compliance with the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

9. Bankers

The municipality's bankers did not change during the year.

10. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

11. Non-compliance with applicable legislation

Significant non-compliance with various legislation have been properly disclosed in the notes to the financial statements.

12. Retirement benefit obligation

Management performed an actuarial valuation of the council's liability arising from the post-retirement healthcare subsidy ("PHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and the municipality has determined the items required for disclosure in terms of this standard.

Mr TL Mkhwane
Accounting Officer

Statement of Financial Position as at 30 June 2019

Figures in Rand	Note(s)	2019	2018 Restated*
Assets			
Current Assets			
Inventories	3	2 681 149	2 666 564
Other receivables from exchange transactions	4	522 878	899 859
Receivables from exchange transactions	5	61 282 438	60 774 934
Receivables from non-exchange transactions	6	27 275 859	28 667 261
VAT receivable	7	18 620 240	14 186 848
Cash and cash equivalents	8	3 703 777	2 123 768
		114 086 341	**109 319 234**
Non-Current Assets			
Investment property	9	83 760 481	82 085 795
Property, plant and equipment	10	724 539 410	738 606 479
Intangible assets	11	579 909	781 304
Heritage assets	12	15 000	15 000
Other financial assets	13	126 471	119 855
		809 021 271	**821 608 433**
Total Assets		**923 107 612**	**930 927 667**
Liabilities			
Current Liabilities			
Finance lease obligation	14	233 374	776 814
Payables from exchange transactions	15	61 162 741	37 183 072
Consumer deposits	16	732 877	781 696
Employee benefit obligation	17	493 000	493 000
Unspent conditional grants and receipts	18	55 010 777	40 930 853
		117 632 769	**80 165 435**
Non-Current Liabilities			
Finance lease obligation	14	104 812	304 485
Employee benefit obligation	17	4 235 000	3 962 000
Provisions	19	7 945 811	8 252 619
		12 285 623	**12 519 104**
Total Liabilities		**129 918 392**	**92 684 539**
Net Assets		**793 189 220**	**838 243 128**
Accumulated surplus		793 189 222	838 243 135

* See Note 44

Statement of Financial Performance

Figures in Rand	Note(s)	2019	2018 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	50 259 851	46 116 671
Dividends received	21	-	3 569
Interest received - outstanding debtors		13 896 772	14 861 585
Interest received - external investments	21	594 158	512 557
Rental of facilities and equipment	23	506 403	584 037
Other income	24	350 816	513 157
Total revenue from exchange transactions		**65 608 000**	**62 591 576**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	27 432 073	15 502 593
Interest earned - outstanding debtors	22	4 803 463	4 493 959
Transfer revenue			
Government grants and subsidies	26	95 538 076	79 495 430
Public contributions and donations	27	134 144	1 253 517
Fines, penalties and forfeits	28	8 365	1 970
Total revenue from non-exchange transactions		**127 916 121**	**100 747 469**
Total revenue		**193 524 121**	**163 339 045**
Expenditure			
Employee related costs	29	(55 579 424)	(49 818 669)
Remuneration of councillors	30	(3 991 114)	(3 745 791)
Depreciation and amortisation	31	(43 762 412)	(44 315 841)
Impairment loss	32	(2 309 157)	(10 913)
Finance costs	33	(646 162)	(2 530 835)
Debt impairment	34	(63 707 388)	(12 259 706)
Repairs and maintenance	35	(552 167)	(327 600)
Bulk purchases	36	(36 330 650)	(26 469 170)
Professional and consulting fees	37	(8 263 227)	(13 901 912)
General expenses	38	(21 155 840)	(18 369 157)
Total expenditure		**(236 297 541)**	**(171 749 594)**
Operating deficit		**(42 773 420)**	**(8 410 549)**
(Loss) gain on disposal of assets and liabilities		(2 939 162)	852 301
Fair value adjustments	39	2 839 096	3 234 225
Actuarial gains	17	14 000	2 695 073
Inventories loss reversals (losses)		(2 194 425)	(1 133 954)
		(2 280 491)	**5 647 645**
Deficit for the year		**(45 053 911)**	**(2 762 904)**

* See Note 44

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	972 354 500	972 354 500
Adjustments		
Prior year adjustments (see note 42)	(131 348 461)	(131 348 461)
Balance at 01 July 2017 as restated*	**841 006 039**	**841 006 039**
Changes in net assets		
Surplus for the year	(2 762 904)	(2 762 904)
Total changes	(2 762 904)	(2 762 904)
Restated* Balance at 01 July 2018	**838 243 133**	**838 243 133**
Changes in net assets		
Surplus for the year	(45 053 911)	(45 053 911)
Total changes	(45 053 911)	(45 053 911)
Balance at 30 June 2019	**793 189 222**	**793 189 222**

* See Note 44

Cash Flow Statement

Figures in Rand	Note(s)	2019	2018 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		14 036 818	15 484 379
Grants and subsidies received		109 618 000	93 649 000
Interest income		19 294 393	19 868 101
Dividends received		-	3 569
		142 949 211	129 005 049
Payments			
Employee costs		(56 640 529)	(51 316 468)
Suppliers and other payments		(50 458 926)	(48 788 059)
		(107 099 455)	(100 104 527)
Net cash flows from operating activities	41	**35 849 756**	**28 900 522**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(33 408 329)	(24 126 839)
Purchase of investment property	9	-	(417 795)
Proceeds from sale of financial assets		-	1 391
Net cash flows from investing activities		**(33 408 329)**	**(24 543 265)**
Cash flows from financing activities			
Finance lease payments		(861 418)	(2 746 306)
Net increase/(decrease) in cash and cash equivalents		**1 580 009**	**1 610 951**
Cash and cash equivalents at the beginning of the year		2 123 768	512 819
Cash and cash equivalents at the end of the year	8	**3 703 777**	**2 123 770**

* See Note 44

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	50 426 000	244 730	**50 670 730**	50 259 851	**(410 879)**	
Rental of facilities and equipment	570 780	(120 780)	**450 000**	506 403	**56 403**	Note 54
Interest received - debtors	3 868 620	-	**3 868 620**	13 896 772	**10 028 152**	Note 54
Dividends received	33 824	(28 691)	**5 133**	-	**(5 133)**	Note 54
Licences and permits	4 499	-	**4 499**	-	**(4 499)**	Note 54
Other revenue	1 954 000	(977 000)	**977 000**	350 816	**(626 184)**	Note 54
Interest received - external investment	842 429	(421 215)	**421 214**	594 158	**172 944**	
Total revenue from exchange transactions	**57 700 152**	**(1 302 956)**	**56 397 196**	**65 608 000**	**9 210 804**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	19 797 160	-	**19 797 160**	27 432 073	**7 634 913**	Note 54
Interest earned - debtors	-	-	**-**	4 803 463	**4 803 463**	Note 54
Transfer revenue						
Government grants and subsidies	111 001 000	(8 000 000)	**103 001 000**	95 538 076	**(7 462 924)**	Note 54
Donations received	-	-	**-**	134 144	**134 144**	Note 54
Fines	35 989	(17 994)	**17 995**	8 365	**(9 630)**	Note 54
Total revenue from non-exchange transactions	**130 834 149**	**(8 017 994)**	**122 816 155**	**127 916 121**	**5 099 966**	
Total revenue	**188 534 301**	**(9 320 950)**	**179 213 351**	**193 524 121**	**14 310 770**	
Expenditure						
Employee costs	(51 715 358)	1 781 524	**(49 933 834)**	(55 579 424)	**(5 645 590)**	Note 54
Remuneration of councillors	(3 859 402)	(268 027)	**(4 127 429)**	(3 991 114)	**136 315**	
Depreciation and amortisation	(33 739 440)	-	**(33 739 440)**	(43 762 412)	**(10 022 972)**	Note 54
Impairment loss	-	-	**-**	(2 309 157)	**(2 309 157)**	Note 54
Finance costs	(52 850)	(347 000)	**(399 850)**	(646 162)	**(246 312)**	Note 54
Debt Impairment	(22 998 206)	-	**(22 998 206)**	(63 707 388)	**(40 709 182)**	Note 54
Repairs and maintenance	(5 181 000)	991 000	**(4 190 000)**	(552 167)	**3 637 833**	
Bulk purchases	(32 000 000)	16 000 000	**(16 000 000)**	(36 330 650)	**(20 330 650)**	Note 54
Contracted services	(18 081 500)	(1 189 500)	**(19 271 000)**	(8 263 227)	**11 007 773**	
General expenses	(12 518 998)	(2 893 002)	**(15 412 000)**	(21 155 840)	**(5 743 840)**	
Total expenditure	**(180 146 754)**	**14 074 995**	**(166 071 759)**	**(236 297 541)**	**(70 225 782)**	
Operating deficit	**8 387 547**	**4 754 045**	**13 141 592**	**(42 773 420)**	**(55 915 012)**	
Fair value adjustments	-	-	**-**	2 839 096	**2 839 096**	Note 54
Actuarial gains/losses	-	-	**-**	14 000	**14 000**	Note 54
Inventories losses	-	-	**-**	(2 194 425)	**(2 194 425)**	Note 54
	-	**-**	**-**	**658 671**	**658 671**	
Surplus	**8 387 547**	**4 754 045**	**13 141 592**	**(42 114 749)**	**(55 256 341)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	4 991 154	-	**4 991 154**	2 681 149	**(2 310 005)**	Note 54
Other receivables from exchange transactions	-	-	**-**	522 878	**522 878**	Note 54
Receivables from non-exchange transactions	-	-	**-**	27 275 859	**27 275 859**	Note 54
VAT receivable	-	-	**-**	18 620 240	**18 620 240**	Note 54
Consumer debtors	204 445 880	-	**204 445 880**	61 282 438	**(143 163 442)**	Note 54
Cash and cash equivalents	892 000	-	**892 000**	3 703 777	**2 811 777**	Note 54
	210 329 034	**-**	**210 329 034**	**114 086 341**	**(96 242 693)**	
Non-Current Assets						
Investment property	21 987 714	-	**21 987 714**	83 760 481	**61 772 767**	Note 54
Property, plant and equipment	672 768 585	53 331 981	**726 100 566**	724 539 410	**(1 561 156)**	
Intangible assets	116 270	-	**116 270**	579 909	**463 639**	Note 54
Heritage assets	-	-	**-**	15 000	**15 000**	Note 54
Other financial assets	-	-	**-**	126 471	**126 471**	Note 54
	694 872 569	**53 331 981**	**748 204 550**	**809 021 271**	**60 816 721**	
Total Assets	**905 201 603**	**53 331 981**	**958 533 584**	**923 107 612**	**(35 425 972)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	233 374	**233 374**	Note 54
Payables from exchange transactions	12 517 634	-	**12 517 634**	61 162 741	**48 645 107**	Note 54
Consumer deposits	-	-	**-**	732 877	**732 877**	Note 54
Employee benefit obligation	798 035	-	**798 035**	493 000	**(305 035)**	Note 54
Unspent conditional grants and receipts	-	-	**-**	55 010 777	**55 010 777**	Note 54
	13 315 669	**-**	**13 315 669**	**117 632 769**	**104 317 100**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	104 812	**104 812**	Note 54
Employee benefit obligation	-	-	**-**	4 235 000	**4 235 000**	Note 54
Provisions	12 167 051	-	**12 167 051**	7 945 811	**(4 221 240)**	Note 54
	12 167 051	**-**	**12 167 051**	**12 285 623**	**118 572**	
Total Liabilities	**25 482 720**	**-**	**25 482 720**	**129 918 392**	**104 435 672**	
Net Assets	**879 718 883**	**53 331 981**	**933 050 864**	**793 189 220**	**(139 861 644)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	879 718 883	53 331 981	**933 050 864**	793 189 220	**(139 861 644)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	62 113 585	8 353 415	**70 467 000**	14 036 818	**(56 430 182)**	
Grants	111 001 000	(8 000 000)	**103 001 000**	109 618 000	**6 617 000**	
Interest income	3 864 000	425 785	**4 289 785**	19 294 393	**15 004 608**	
Dividends received	39 000	(33 867)	**5 133**	-	**(5 133)**	
Other receipts	2 564 501	(1 116 000)	**1 448 501**	-	**(1 448 501)**	
	179 582 086	**(370 667)**	**179 211 419**	**142 949 211**	**(36 262 208)**	
Payments						
Employee costs	(199 017 885)	67 033 942	**(131 983 943)**	(56 640 529)	**75 343 414**	
Suppliers and other payments	-	-	**-**	(50 458 927)	**(50 458 927)**	
Finance costs	(53 000)	(347 000)	**(400 000)**	-	**400 000**	
	(199 070 885)	**66 686 942**	**(132 383 943)**	**(107 099 456)**	**25 284 487**	
Net cash flows from operating activities	**(19 488 799)**	**66 316 275**	**46 827 476**	**35 849 755**	**(10 977 721)**	
Cash flows from investing activities						
Capital assets	(49 949 000)	1 430 749	**(48 518 251)**	(33 408 329)	**15 109 922**	
Net increase/(decrease) in cash and cash equivalents	(69 437 799)	67 747 024	**(1 690 775)**	2 441 426	**4 132 201**	
Cash and cash equivalents at the beginning of the year	892 000	-	**892 000**	2 123 768	**1 231 768**	
Finance lease payments	-	-	**-**	(861 417)	**(861 417)**	
Cash and cash equivalents at the end of the year	**(68 545 799)**	**67 747 024**	**(798 775)**	**3 703 777**	**4 502 552**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, unless specifically stated.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the surplus and dificit for the year.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of valuein-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to the present value where the time value effect is material. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment as well as the intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the condition and use of the individual assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

This accounting policy has been changed from the previous period and the effect has been disclosed in the notes to the annual financial statements.

1.3 Significant judgements and sources of estimation uncertainty (continued)

GRAP 24: Presentation of budget information

The comparison of budget and actual amounts were presented separately for each level of legislative oversight:

- the approved and final budget amounts;
- the actual amounts on a comparable basis.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Accounting Policies

1.4 Investment property (continued)

All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

1.5 Property, plant and equipment (continued)

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land	Straight line	Infinite
Buildings	Straight line	25 - 50 years
- Improvements	Straight line	25 - 50 years
Plant and machinery	Straight line	3 - 10 years
Furniture and fixtures	Straight line	3 - 10 years
Motor vehicles	Straight line	3 - 7 years
Heavy machinery and vehicles	Straight line	3 - 10 years
Office equipment	Straight line	2 - 7 years
Infrastructure	Straight line	
- Electricity	Straight line	7 - 50 years
- Roads	Straight line	8 - 50 years
- Sewerage and solid waste	Straight line	5 - 50 years
- Stormwater	Straight line	30 - 50 years
- Water	Straight line	5 - 50 years
Community assets	Straight line	
- Buildings	Straight line	20 - 50 years
- Recreational facilities	Straight line	7 - 50 years
- Security measures	Straight line	3 - 5 years
Other property, plant and equipment	Straight line	
- Other equipment	Straight line	2 - 10 years
- Fences and gates	Straight line	15 - 25 years
- Paving	Straight line	3 - 10 years
Other equipment	Straight line	3 - 10 years
Leased assets (computer equipment, copies and cellphones)	Straight line	2 - 3 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

1.6 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software	Straight line	2 - 6 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.7 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

1.7 Heritage assets (continued)

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

1.8 Financial instruments (continued)

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

1.8 Financial instruments (continued)

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

1.8 Financial instruments (continued)

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.8 Financial instruments (continued)

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

1.8 Financial instruments (continued)

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Accounting Policies

1.9 Leases (continued)

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Accounting Policies

1.10 Inventories (continued)

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.12 Impairment of non-cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

1.12 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

1.13 Employee benefits (continued)

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.13 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity’s own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

1.13 Employee benefits (continued)

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and

1.13 Employee benefits (continued)

- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and

- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

1.13 Employee benefits (continued)

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

Accounting Policies

1.13 Employee benefits (continued)

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 52.

1.15 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.16 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality’s right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Accounting Policies

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

1.17 Revenue from non-exchange transactions (continued)

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

There are two types of fines and summonses. Municipalities will usually issue both types of fines. There is uncertainty regarding the probability regarding of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable.

In respect of summonses the public prosecutor can decide whether to waive the revenue amount collected from the spot fines and summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:

- It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;
- The amount of the revenue can be measured reliably. and;
- There has been compliance with the relevant legal requirement.

The municipality needs to assess the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transactions will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed program may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

1.17 Revenue from non-exchange transactions (continued)

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Division of Revenue Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Assessment rates

Revenue from rates, including collection charges and penalty interest, is recognised when:

- It is probable that the economic benefits or service potential associated with the transactions will flow to the entity;
- The amount of the revenue can be measured reliably. and;
- There has been compliance with the relevant legal requirement.

Changes to property values during a reporting period, which are referred to as "interims, are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

Accounting Policies

1.21 Unauthorised expenditure (continued)

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Use in estimate

The preparation of financial statements in conformity with the Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in the relevant section of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.25 Value added tax

The municipality is registered with the South African Revenue Services for VAT on the payment basis, in accordance with section 15(2) of the Value Added Tax Act, 1991 (Act No. 89 of 1991).

1.26 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

1.26 Budget information (continued)

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2018/07/01 to 2019/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the provincial sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.28 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality has early adopted the interpretation for the first time in the 2018/2019 annual financial statements.

The impact of the interpretation is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2019 or later periods:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	Unlikely there will be a material impact

3. Inventories

	2019	2018
Maintenance materials	2 291 895	2 280 755
Spare parts	376 536	376 536
Water	12 718	9 273
	2 681 149	**2 666 564**

Inventories are held for own use and measured at the lower of cost or current replacement value. Inventory amounting to R2 194 425 (2018: R1 133 853) was written off during the year.

The cost of water production for the year amounted to R0.67 (2018: R0.67) per kilolitre.

Inventory pledged as security

No inventories have been pledged as security for overdraft facilities of the municipality.

4. Other receivables from exchange transactions

	2019	2018
Sundry deposits	522 878	899 859

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

5. Receivables from exchange transactions

Gross balances		
Electricity	6 243 411	5 699 312
Water	52 175 686	52 775 368
Sewerage	44 410 879	42 352 188
Refuse	42 819 423	41 209 244
Housing rental	2 851 208	3 372 468
Other - interest	39 957 780	142 611
	188 458 387	**145 551 191**
Less: Allowance for impairment		
Electricity	(3 690 992)	(3 136 945)
Water	(36 248 622)	(30 517 671)
Sewerage	(30 798 693)	(24 702 803)
Refuse	(29 787 144)	(24 043 893)
Housing rental	(1 621 190)	(2 293 822)
Other - interest	(25 029 308)	(81 123)
	(127 175 949)	**(84 776 257)**
Net balance		
Electricity	2 552 419	2 562 367
Water	15 927 064	22 257 697
Sewerage	13 612 186	17 649 385
Refuse	13 032 279	17 165 351
Housing rental	1 230 018	1 078 646
Other (specify)	14 928 472	61 488
	61 282 438	**60 774 934**
Electricity		
Current (0 -30 days)	530 115	479 101
31 - 60 days	(223)	49 092
61 - 90 days	95 777	190 359
91 - 120 days	81 154	98 474
121 - 365 days	1 845 596	1 745 341
	2 552 419	**2 562 367**
Water		
Current (0 -30 days)	577 390	739 144
31 - 60 days	(642)	467 804
61 - 90 days	296 694	1 466 255
91 - 120 days	462 307	596 378
121 - 365 days	14 591 315	18 988 116
	15 927 064	**22 257 697**
Sewerage		
Current (0 -30 days)	719 203	813 982
31 - 60 days	(62)	365 981
61 - 90 days	333 197	454 490
91 - 120 days	325 283	442 057
121 - 365 days	12 234 565	15 572 875
	13 612 186	**17 649 385**

Figures in Rand	2019	2018

5. Receivables from exchange transactions (continued)

Refuse		
Current (0 -30 days)	653 065	760 305
31 - 60 days	(56)	356 660
61 - 90 days	318 055	506 033
91 - 120 days	310 315	424 838
121 - 365 days	11 750 900	15 117 515
	13 032 279	**17 165 351**
Housing rental		
Current (0 -30 days)	15 417	22 307
31 - 60 days	-	30 421
61 - 90 days	6 933	25 003
91 - 120 days	6 717	14 723
121 - 365 days	1 200 951	986 192
	1 230 018	**1 078 646**
Other (specify)		
Current (0 -30 days)	1 378 557	16 337
31 - 60 days	-	-
61 - 90 days	652 206	(5 409)
91 - 120 days	640 514	13 930
121 - 365 days	12 257 195	36 630
	14 928 472	**61 488**
Reconciliation of allowance for impairment		
Balance at beginning of the year	84 776 257	68 922 555
Contributions to allowance	42 399 692	15 853 702
	127 175 949	**84 776 257**

Consumer debtors pledged as security

None of the receivable from exchange transaction debtors have been pledged as security for the municipality's financial liabilities.

Recaivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R3 528 168 (2018: R5 426 944) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	(983)	1 239 537
2 months past due	1 702 861	2 611 730
3 months past due	1 826 290	1 575 677

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. The provision for impairment in respect of the receivables from exchange transactions have been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment. Refer to details in the accounting policy for further details.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

6. Receivables from non-exchange transactions

Assessment rates	45 724 986	45 180 769
Provision for impairment	(18 449 127)	(16 513 508)
	27 275 859	**28 667 261**

Receivables from non-exchange transactions pledged as security

None of the receivables from non-exchange transactions have been pledged as security for the municipality's financial liabilities.

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2019, R1 495 936 (2018: R 2 205 735) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	3 017	521 219
2 months past due	765 604	818 348
3 months past due	727 315	866 168

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	16 513 508	18 970 924
Provision for impairment	1 935 619	(2 457 416)
	18 449 127	**16 513 508**

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.

In determining the recoverability of the receivables from non-exchange transactions, the municipality considers any change in the credit quality of the assessment rate debtors from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

7. VAT receivable

VAT	18 620 240	14 186 848

VAT is payable on a receipt basis. Once payment is received from debtors, VAT is paid over to SARS.

No interest is payable to SARS if VAT is paid in time. Interest on late payments is charged according to SARS policies. The municipality has financial risk policies in place to ensure that payments are affected before the due date.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2019	2018
Bank balances	1 198 517	2 123 504
Short-term deposits	2 505 260	264
	3 703 777	**2 123 768**

The management of the municipality is of the opinion that the carrying value of the current investments and bank balances recorded at amortised cost in the financial statements approximate amortised cost.

Cash and cash equivalents pledged as collateral

The municiplaity did not pledge any of its cash and cash equivalents as collaterol for its financial liabilities. No restriction have been imposed on the municipality in terms of the utilisation of its cash and cash equivalents

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2019	**30 June 2018**	**30 June 2017**	**30 June 2019**	**30 June 2018**	**30 June 2017**
First National Bank - Current account - 527115689918	900 236	1 785 287	386 546	900 236	1 785 287	414 124
ABSA Bank - Current account - 4078034774	298 281	338 218	98 515	298 281	338 218	98 515
First National Bank - Call account - 62711355132	66	83	-	66	83	-
First National Bank - Call account - 6269415415	-	180	180	-	180	180
ABSA Bank - Current account - 409262218	2 505 194	-	-	2 505 194	-	-
Total	**3 703 777**	**2 123 768**	**485 241**	**3 703 777**	**2 123 768**	**512 819**

9. Investment property

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	83 760 481	-	83 760 481	82 085 795	-	82 085 795

Reconciliation of investment property - 2019

	Opening balance	**Fair value adjustment**	**Transfers**	**Total**
Investment property	82 085 795	2 832 480	(1 157 794)	83 760 481

Reconciliation of investment property - 2018

	Opening balance	**Additions**	**Fair value adjustment**	**Total**
Investment property	78 434 448	417 795	3 233 552	82 085 795

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

10. Property, plant and equipment

	2019			2018		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	13 447 218	-	13 447 218	13 387 218	-	13 387 218
Buildings	155 442 768	(65 955 419)	89 487 349	146 320 416	(61 843 224)	84 477 192
Other property, plant and equipment	11 567 163	(6 761 146)	4 806 017	11 530 395	(6 212 295)	5 318 100
Infrastructure	1 280 918 494	(664 373 962)	616 544 532	1 265 048 626	(631 207 030)	633 841 596
Leased assets	4 089 003	(3 834 709)	254 294	3 825 188	(2 242 815)	1 582 373
Total	**1 465 464 646**	**(740 925 236)**	**724 539 410**	**1 440 111 843**	**(701 505 364)**	**738 606 479**

Reconciliation of property, plant and equipment - 2019

	Opening balance	**Additions**	**Disposals**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land	13 387 218	-	-	60 000	-	-	13 447 218
Buildings	84 477 192	9 334 530	(190 206)	1 097 793	(3 732 893)	(1 499 067)	89 487 349
Other property, plant and equipment	5 318 100	450 145	(101 835)	-	(859 417)	(976)	4 806 017
Infrastructure	633 841 596	23 454 518	(2 647 120)	-	(37 605 642)	(498 820)	616 544 532
Leased assets	1 582 373	34 986	-	-	(1 363 065)	-	254 294
	738 606 479	**33 274 179**	**(2 939 161)**	**1 157 793**	**(43 561 017)**	**(1 998 863)**	**724 539 410**

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	13 387 218	-	-	-	-	13 387 218
Buildings	88 100 244	93 837	-	(3 716 889)	-	84 477 192
Other property, plant and equipment	6 499 211	996 664	(874 221)	(1 292 644)	(10 910)	5 318 100
Infrastructure	646 433 156	25 139 581	-	(37 731 141)	-	633 841 596
Leased assets	2 678 475	277 538	(1 019)	(1 372 621)	-	1 582 373
	757 098 304	**26 507 620**	**(875 240)**	**(44 113 295)**	**(10 910)**	**738 606 479**

Pledged as security

None of the tangible assets were pledged as security during the current year and previous financial years.

Compensation received for losses on property, plant and equipment – included in operating profit.

Furniture and fixtures	-	1 875
IT equipment	-	256 887
Infrastructure	7 740	-
Other property, plant and equipment	52 894	-
	60 634	**258 762**

Assets subject to finance lease (Net carrying amount)

Computer equipment	254 294	1 582 373

Other information

Expenditure incurred on repairs and maintenance of property, plant and equipment

Other property, plant and equipment	552 167	327 600

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2019

	Included within infrastructure	Included within buildings	Total
Opening balance	57 726 110	3 704 827	61 430 937
Additions/capital expenditure	24 031 962	9 067 381	33 099 343
Transferred to completed items	(8 854 672)	-	(8 854 672)
	72 903 400	**12 772 208**	**85 675 608**

Reconciliation of Work-in-Progress 2018

	Included within infrastructure	Included within buildings	Total
Opening balance	48 571 358	3 704 827	52 276 185
Additions/capital expenditure	25 139 579	93 836	25 233 415
Transferred to completed items	(15 984 827)	(93 836)	(16 078 663)
	57 726 110	**3 704 827**	**61 430 937**

A register containing the information required by section 63 of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) is available for inspection at the registered office of the municipality.

Slow-moving projects

	2019	2018
Koffiefontein: Upgrading of existing solid waste disposal site	842 352	842 352
Koffiefontein / Sonwabile: Construction of new sports facility	-	688 632
Jacobsdal: Upgrading of waste water treatment works	-	4 814 568
Koffiefontein: Upgrading of sports complex	3 016 194	3 016 194
Luckhoff: Construction of water treatment plan	6 112 602	6 112 602
Luckhoff: Construction of a new solid waste landfill site (phase 1)	431 450	-
Koffiefontein: Upgrading of sub-station	263 989	-

The aforementioned projects represent the slow-moving projects which are included in work-in-progress balance. These projects are slow-moving due to the fact that the contractors were not performing and these projects were therefore placed on hold and/or terminated.

11. Intangible assets

	2019			2018		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 006 977	(427 068)	579 909	1 006 977	(225 673)	781 304

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software	781 304	(201 395)	579 909

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

11. Intangible assets (continued)

Reconciliation of intangible assets - 2018

	Opening balance	Amortisation	Total
Computer software	982 700	(201 396)	781 304

Pledged as security

All of the municipality's intangible assets are held under freehold interests and no intangible assets had been pledged as security for any liabilities of the municipality.

12. Heritage assets

	2019			2018		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Mayoral chain	15 000	-	15 000	15 000	-	15 000

Reconciliation of heritage assets 2019

	Opening balance	Total
Mayoral chain	15 000	15 000

Reconciliation of heritage assets 2018

	Opening balance	Total
Mayoral chain	15 000	15 000

13. Other financial assets

	2019	2018
Designated at fair value		
Unlisted shares	126 471	119 855

The municipality holds the following non-controlling interests:

Senwes Limited:	3 600 (2018: 3 600) shares
Senwesbel Limited:	4 990 (2018: 4 990) shares
OVK:	4 000 (2018: 4 000) shares

	2019	2018
Non-current assets		
Designated at fair value	126 471	119 855

Figures in Rand	2019	2018

13. Other financial assets (continued)

Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Class 1: Senwes Limited These shares are valued as per the valuation obtained from the Senwes Limited Transfer Secretaries and represents the fair value as at 30 June.	39 420	37 800
Class 2: Senwesbel Limited These shares are valued as per the valuation obtained from the Senwesbel Limited Transfer Secretaries and represents the fair value as at 30 June.	24 451	22 455
Class 3: OVK These shares are valued as per the valuation obtained from the OVK Transfer Secretaries and represents the fair value as at 30 June.	62 600	59 600
	126 471	**119 855**

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 2 applies inputs which are not based on observable market data.

Level 3 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 1		
Class 1: Senwes Limited	39 420	37 800
Class 2: Senwesbel Limited	24 451	22 455
Class 3: OVK	62 600	59 600
	126 471	**119 855**

14. Finance lease obligation

Minimum lease payments due		
- within one year	257 389	854 403
- in second to fifth year inclusive	110 691	330 522
	368 080	1 184 925
less: future finance charges	(29 894)	(103 626)
Present value of minimum lease payments	**338 186**	**1 081 299**

Present value of minimum lease payments due		
- within one year	233 374	776 814
- in second to fifth year inclusive	104 812	304 485
	338 186	**1 081 299**

Non-current liabilities	104 812	304 485
Current liabilities	233 374	776 814
	338 186	**1 081 299**

14. Finance lease obligation (continued)

It is municipality policy to lease certain other property, plant and equipment (computer and cellphones) under finance leases.

The average lease term was 3 years for copiers, 2 years for cellphones and the average effective borrowing rate was 10% (2018: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

15. Payables from exchange transactions

	2019	2018
Trade payables	9 420 934	6 253 532
Acrued bonus	1 038 515	942 941
Accrued leave pay	4 768 110	4 149 852
Retention monies	4 978 084	5 295 113
Employee related liabilities	3 641 611	1 712 434
Eskom	24 796 353	12 200 916
Sedibeng Water	428 464	-
Oranje-Riet	2 502 445	2 947 445
Kalkfontein	3 551 589	3 414
Payments received in advanced	6 036 636	3 677 425
	61 162 741	**37 183 072**

16. Consumer deposits

	2019	2018
Water and Electricity	732 877	781 696

17. Employee benefit obligations

Defined benefit plan

Post-employment medical aid benefit liability

The municipality provides certain post-employment health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the respective medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The municipality makes monthly contributions for health care arrangements to the Hosmed, LA Health and Key Health Medical Aid schemes.

The members of the Post-employment medical aid (health care) benefit plan are made up as follows:

- In-service members (employees): 0 (2018: 0)
- In-service non-members (employees): 0 (2018: 0)
- Continuation members (retirees, widowers and orphans): 8 (2018: 8)

17. Employee benefit obligations (continued)

Long service award liability

The municipality operates an unfunded defined benefit liability for all its employees. Under the plan, a long service award is every 5 years of continuous service, from 5 to 45 years of service, inclusive. The provision is an estimate of the long service based on historical staff turnover. No other long service benefits are provided to employees.

The most recent actuarial valuation of the present value of the defined benefit obligation were carried out at 30 June 2019. The present value of the defined benefit obligation, and the related current and past service cost, were measured using the Projected Unit Credit Method.

The current service cost for the year ending 30 June 2019 is estimated to be R362 000, whereas the cost for ensuing year is estimated to be R275 000 (R250 000 and R238 000 respective).

Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the respective medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post retirement benefits are provided to these employees.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2019. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Present value of the Post-employment medical aid benefit liability	(2 040 000)	(1 996 000)
Present value of the Long service award liability	(2 688 000)	(2 459 000)
	(4 728 000)	**(4 455 000)**
Non-current liabilities	(4 235 000)	(3 962 000)
Current liabilities	(493 000)	(493 000)
	(4 728 000)	**(4 455 000)**

The municipality expects to make a contribution of R271 000 (2018: R250 000) and R222 000 (2018: R243 000) in the next financial year to the post-employment medical aid benefit and long service award liabilities, respectively.

Changes in the present value of the post-employment medical aid benefit obligation are as follows:

Opening balance	1 996 000	4 293 667
Net expense recognised in the statement of financial performance	44 000	(2 297 667)
	2 040 000	**1 996 000**

Net expense recognised in the statement of financial performance: Post-employment medical aid benefit liability

Current service cost	-	1 720
Benefits paid	(265 000)	(245 000)
Interest cost	180 000	354 173
Actuarial (gains) losses	129 000	(2 408 560)
	44 000	**(2 297 667)**

Figures in Rand	2019	2018

17. Employee benefit obligations (continued)

Changes in the present value of the long service award liability are as follows:

Opening balance	2 459 000	2 451 414
Net expense recognised in the statement of financial performance	229 000	7 586
	2 688 000	**2 459 000**

Changes in the fair value of plan assets are as follows:

Current service cost	356 000	414 792
Interest cost	238 000	193 307
Actuarial gains (losses)	(222 000)	(286 513)
Benefits paid	(143 000)	(314 000)
	229 000	**7 586**

The municipality expects to contribute R - to its defined benefit plans in the following financial year.

Key assumptions used

Assumptions used at the reporting date:

Discount rate: Post-employment medical aid benefit liability	8,67 %	8,67 %
Discount rate: Long service award liability	8,47 %	8,47 %
Health care cost inflation rate	6,98 %	6,98 %
General salary inflation	6,29 %	6,29 %
Net discount rate: Post-employment medical aid benefit liability	1,59 %	1,59 %
Net discount rate: Long service award liability	2,05 %	2,05 %
Maximum subsidy inflation rate	4,86 %	4,86 %
Net discount rate: Maximum subsidy inflation rate	3,64 %	3,64 %

Other assumptions
The effect of a 1% movement in the assumed rate of post-employment health care benefit inflation is as follows:

Increase:		
Effect on the aggregate of the current service cost and the interest cost	196 000	362 893
Effect on the defined benefit obligation	2 113 000	2 066 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	181 000	341 300
Effect on the defined benefit obligation	1 959 000	1 917 000

The effect of a 1% movement in the assumed rate of long service cost inflation is as follows:

Increase:		
Effect on the aggregate of the current service cost and the interest cost	681 000	639 000
Effect on the defined benefit obligation	2 864 000	2 630 000
Decrease:		
Effect on the aggregate of the current service cost and the interest cost	598 000	554 000
Effect on the defined benefit obligation	2 530 000	2 305 000

17. Employee benefit obligations (continued)

Other assumptions

Amounts for the current and previous four years are as follows:

	2019 R	2018 R	2017 R	2016 R	2015 R
Post-employment medical aid benefit liability	2 040 000	1 996 000	4 293 667	4 136 780	4 303 000
Long service award liability	2 688 000	2 459 000	2 451 414	2 010 937	1 644 482

Actuarial gains

	2019	2018
Post-employment medical aid benefit liability	129 000	(2 408 560)
Long service award liability	(143 000)	(286 513)
	(14 000)	**(2 695 073)**

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2019	2018
Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	14 521 311	6 031 554
Integrated National Electrification Programme (INEP)	369 053	369 053
Water Services Infrastructure Grant (WSIG)	33 227 661	32 998 842
Department of Health Grant	115 000	115 000
Department of Roads and Transport Grant	1 416 404	1 416 404
Free State Provincial Government	4 617 000	-
Free State Provincial Treasury	744 348	-
	55 010 777	**40 930 853**

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note 26 for reconciliation of grants from National/Provincial Government.

Due to the adverse economic environment, a significant portion of amounts due to the municipality in respect of services rendered, property rates and taxes are tied up in receivables. This resulted in amounts earmarked for conditional projects being utilised to ensure smooth running of the municipality. Management is actively following up on outstanding receivables to ensure that projects are completed.

19. Provisions

Reconciliation of provisions - 2019

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	8 252 619	(306 808)	7 945 811

Reconciliation of provisions - 2018

	Opening Balance	Unwinding of interest	Total
Environmental rehabilitation	7 428 100	824 519	8 252 619

The provision was based on 100% of the landfill site areas as the total area is used for dumping of waste. Dumping is not limited to a certain portion of landfill sites. The entire site will have to be rehabilitated, therefore the provision was based on 100%.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

19. Provisions (continued)

Jacobsdal	2 474 988	2 483 143
Koffiefontein	2 904 606	2 699 614
Luckhoff	1 119 176	1 294 105
Oppermansgronde	512 265	502 091
Petrusburg	934 776	1 273 666
	7 945 811	**8 252 619**

20. Service charges

Sale of electricity	16 946 259	13 876 037
Sale of water	10 490 006	15 947 984
Sewerage and sanitation charges	11 731 738	8 312 241
Refuse removal	11 076 548	7 984 662
Other service charges	15 300	-
	50 259 851	**46 120 924**

21. Investment revenue

Dividend revenue		
Other financial assets	-	3 569
Interest revenue		
Interest earned - external investments	594 158	512 557
	594 158	**516 126**

22. Interes earned on outstanding debtors

Interest - Receivables	4 803 463	4 493 959

23. Rental of facilities and equipment

Premises		
Premises	262 364	331 295
Venue hire	244 039	252 742
	506 403	**584 037**

24. Other income

Administration fees	75 650	110 540
Building plan fees	9 437	1 806
Connection and re-connection fees	122 247	55 898
Grave sales	44 638	25 369
Insurance refund	48 781	258 762
Photocopies	27 079	307
Tax certificates	5 834	57 825
Tender documents	17 150	2 650
	350 816	**513 157**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

25. Property rates

Rates received

Property rates	27 432 073	15 502 593

Valuations

Residential	1 008 198 000	810 718 877
Commercial	85 290 000	177 231 140
State	108 270 000	60 569 875
Municipal	23 830 000	23 457 915
Small holdings and farms	2 252 885 000	1 966 486 424
Other	122 830 000	97 407 041
	3 601 303 000	**3 135 871 272**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

26. Government grants and subsidies

Operating grants		
Equitable share	58 082 000	49 189 000
Financial Management Grant (FMG)	1 970 000	1 900 000
	60 052 000	**51 089 000**
Capital grants		
Water Services Infrastructure Grant (WSIG)	12 771 181	17 260 037
Municipal Infrastructure Grant (MIG)	21 459 243	9 845 446
Expanded Public Works Programme Grant (EPWP)	1 000 000	1 000 000
Integrated National Electrification Programme Grant (INEP)	-	300 947
Free State Provincial Treasury	255 652	-
	35 486 076	**28 406 430**
	95 538 076	**79 495 430**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	37 200 424	30 306 430
Unconditional grants received	58 082 000	49 189 000
	95 282 424	**79 495 430**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

National: Municipal Infrastructure Grant (MIG)

Balance unspent at beginning of year	6 031 554	4 564 885
Current-year receipts	29 949 000	15 877 000
Conditions met - transferred to revenue	(21 459 243)	(9 845 446)
Repayment of funds (withheld from the Equitable share allocation)	-	(4 564 885)
	14 521 311	**6 031 554**

Conditions still to be met - remain liabilities (see note 18).

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions, and to provide for new, rehabilitation and upgrading of municipal infrastructure.

As per the DoRA, the municipality was allocated a ring-fenced amount of R13 065 000 for the upgrading of the stadium at Sonwabile in Koffiefontein.

National: Integrated National Electrification Programme (INEP)

Balance unspent at beginning of year	369 053	-
Current-year receipts	-	670 000
Conditions met - transferred to revenue	-	(300 947)
	369 053	**369 053**

Conditions still to be met - remain liabilities (see note 18).

The grant is allocated to municipalities to improve and upgrade the electricity infrastructure and enhance the electricity capacity within the municipality.

National: Water Services Infrastructure Grant (WSIG)

Balance unspent at beginning of year	32 998 842	20 680 993
Current-year receipts	30 000 000	41 231 000
Conditions met - transferred to revenue	(12 771 181)	(17 260 037)
Repayment of funds (withheld from the Equitable share allocation)	(17 000 000)	(11 653 114)
	33 227 661	**32 998 842**

Conditions still to be met - remain liabilities (see note 18).

The grant is allocated and used to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service.

During the year National Treasury withheld R17 000 000 from the municipality's Equitable Share allocation as the repayment of the unspent portion of the previous financial years.

This grant was previously known as the Municipal Water Infrastructure Grant (MWIG).

Provincial: Department of Health

Balance unspent at beginning of year	115 000	115 000

Conditions still to be met - remain liabilities (see note 18).

The grant was used to fund environmental health care services, which was transferred to the Provincial Department.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

Provincial: Department of Roads and Transport

Balance unspent at beginning of year	1 416 404	1 416 404

Conditions still to be met - remain liabilities (see note 18).

The grant is used to finance the upgrading and construction of the street network within the municipal boundaries.

National: Financial Management Grant (FMG)

Current-year receipts	1 970 000	1 900 000
Conditions met - transferred to revenue	(1 970 000)	(1 900 000)
	-	-

The Financial Management Grant (FMG) is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003). All conditions attached to the grant were met and no funds were withheld.

National: Expanded Public Works Programme (EPWP)

Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-

The Expanded Public Works Programme (EPWP) Grant is allocated to incentives municipalities to expand work creation efforts through the use of labour incentive delivery methods in the identified focus areas in compliance with the EPWP guidelines. All conditions attached to the grant were met and no funds were withheld.

Provincial: Free State Provincial Government

Current-year receipts	4 617 000	-

Conditions still to be met - remain liabilities (see note 18).

Provide explanations of conditions still to be met and other relevant information.

Free State Provincial Treasury

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(255 652)	-
	744 348	**-**

Conditions still to be met - remain liabilities (see note 18).

Provide explanations of conditions still to be met and other relevant information.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

26. Government grants and subsidies (continued)

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Bill, 2018 (Bill No. 2 of 2018), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

The municipality was allocated the following indirect grants:

- Integrated National Electrification (INEP) Programme R201 000
- Municipal Systems Improvement Grant (MSIG) R1 700 000

These grants are allocated to the specific departments, which then can enter into a service level agreement with the municipality in order to utilise the funds, but the accountability remains with the specific department until such services are render or goods received. No service level agreement(s) was entered into with any department and no funds were requested. Therefore, these allocations have not been accounted for in the financial records of the municipality.

27. Public contributions and donations

Public contributions and donations (moveables)	134 144	1 253 517

Approval has been granted by the Provincial Treasury to donate two vehicles to the municipality for service delivery interventions.

28. Fines, Penalties and Forfeits

Law enforcement fines	8 365	1 970

29. Employee related costs

Basic salaries and wages	34 630 292	31 417 944
Bonus	2 445 423	1 700 685
Overtime payments	3 513 821	3 516 210
Housing benefits and allowances	105 192	112 597
Other allowance	5 582 052	4 999 823
Telephone allowance	840 881	84 485
Pension funds - council contributions	4 475 116	4 061 152
Medical aid funds - council contributions	1 718 273	1 928 521
Industrial council	19 609	18 263
UIF	312 586	302 972
Short term benefit	829 713	-
Workmens compensation contributions	-	439 701
Defined contribution plans	287 000	110 893
Long service awards	-	403 417
Leave pay provision charge	819 466	722 006
	55 579 424	**49 818 669**

Remuneration of Municipal Manager

Annual remuneration	853 307	815 696
Car allowance	257 520	252 611
Bonus	71 109	-
Contributions to UIF, medical aid and pension funds	65 450	24 929
Other allowances	49 602	27 286
	1 296 988	**1 120 522**

Figures in Rand	2019	2018

29. Employee related costs (continued)

Remuneration of Chief Finance Officer

Annual remuneration	672 162	178 362
Car allowance	183 576	30 000
Bonus	52 598	-
Contributions to UIF, medical aid and pension funds	62 176	10 600
Other allowances	37 921	8 650
	1 008 433	**227 612**

Remuneration of the Director: Community Services

Annual remuneration	909 991	925 979
Car allowance	102 000	129 312
Contributions to UIF, medical aid and pension funds	12 534	10 933
Other allowances	52 480	23 721
	1 077 005	**1 089 945**

Remuneration of the Director: Technical Services

Annual remuneration	605 131	162 461
Car allowance	209 122	30 000
Bonus	46 812	-
Contributions to UIF, medical aid and pension funds	21 498	2 413
Other allowances	33 460	7 698
	916 023	**202 572**

Remuneration of the Director: Corporate Services

Annual remuneration	891 991	768 781
Car allowance	120 000	120 000
Contributions to UIF, medical aid and pension funds	12 228	10 678
Other allowances	52 480	21 601
	1 076 699	**921 060**

30. Remuneration of councillors

Mayor	525 338	789 653
Councillors	3 465 776	2 956 138
	3 991 114	**3 745 791**

In-kind benefits

The executive mayor is full-time. The mayor is provided with an office, secretarial support and a full time driver at the cost of the Council.

The salaries, allowances and benefits were paid within the upper limites of the framework envisaged in Section 219 of the Constitution.

31. Depreciation and amortisation

Property, plant and equipment	43 561 017	44 114 446
Intangible assets	201 395	201 395
	43 762 412	**44 315 841**

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

32. Impairment of assets

Impairments		
Property, plant and equipment	2 309 157	10 913

Property, plant and equipment have been impaired due to the condition assessments that indicated a decrease in value in use since the last assessment.

33. Finance costs

Trade and other payables	876 666	1 367 260
Finance leases	76 305	339 056
Rehabilitation of landfill site	(306 809)	824 519
	646 162	**2 530 835**

34. Debt impairment

Contributions to debt impairment provision	63 707 388	12 259 706

35. Repairs and maintenance

Repairs and maintenance	552 167	327 600

36. Bulk purchases

Electricity	34 422 210	22 755 733
Water	1 908 440	3 713 437
	36 330 650	**26 469 170**

37. Professional and consulting fees

Other Contractors	8 263 227	13 901 912

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

38. General expenses

Accommodation	790 398	609 429
Advertising	68 920	84 886
Auditors remuneration	1 571 278	2 868 402
Bank charges	548 641	672 669
Chemicals	1 284 289	1 818 144
Commission paid	365 881	418 167
Conferences and seminars	60 797	247 028
Delivery expenses	3 328	-
Donations	-	3 128
Electricity	3 728 889	4 113 882
Entertainment	391 818	619 592
Fuel and oil	406 920	367 160
Funeral cost	7 104	11 582
Hire	369 163	392 001
Hostel charges	16 200	-
Insurance	1 516 438	1 392 755
License fees	174 319	240 643
Other expenses	73 250	675 087
Postage and courier	2 053	14 614
Security (Guarding of municipal property)	5 069 592	-
Software expenses	95 931	-
Special events and programs	-	146 359
Staff welfare	-	29 643
Subscriptions and membership fees	607 033	379 461
Telephone and fax	1 001 423	1 484 387
Title deed search fees	52	46 526
Training	524 109	247 187
Travel - local	1 222 264	964 191
Uniforms	418 354	5 015
Veterinary department	173 913	-
Ward committee expense	341 293	267 813
Water tests	322 190	249 406
	21 155 840	**18 369 157**

The amounts disclosed above for other expenses are in respect of costs incurred in the general management of the municipality and not direct attributable to a specific service or class of expense. Inter-departmental charges are charged to other trading and economic services for support services rendered.

39. Fair value adjustments

Investment property (Fair value model)	2 839 096	3 234 225

40. Auditors' remuneration

Fees	1 571 278	2 868 402

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

41. Cash generated from operations

Deficit	(45 053 911)	(2 762 904)
Adjustments for:		
Depreciation and amortisation	43 762 412	44 315 841
Gain (loss) on sale of assets and liabilities	2 939 162	(852 301)
Fair value adjustments	(2 839 096)	(3 234 225)
Finance costs - Finance leases	76 305	339 056
Impairment loss	2 309 157	10 913
Movements in provisions	(306 808)	824 519
Donations received	(134 144)	(1 253 517)
Changes in working capital:		
Inventories	(14 585)	126 027
Other receivables from exchange transactions	376 981	(27 759 219)
Receivables from non-exchange transactions	1 391 402	(14 739 591)
Other receivables from non-exchange transactions	(507 504)	(899 859)
Employee benefit obligation	273 000	(2 290 081)
Payables from exchange transactions	23 979 672	18 192 990
VAT receivable	(4 433 392)	4 746 901
Unspent conditional grants and receipts	14 079 924	14 153 571
Consumer deposits	(48 819)	(17 599)
	35 849 756	**28 900 522**

42. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	18 483 078	30 753 122
Total capital commitments		
Already contracted for but not provided for	18 483 078	30 753 122

This committed expenditure relates to property, plant and equipment and will be financed from government grants.

43. Related parties

These include the total remuneration per councillor, in aggregate for the entire financial year.

Remuneration of councillors

Mrs TI Reachable (resignation: 4 March 2018)	552 864	789 653
Mr SJ Bahumi (appointment acting Mayor: 4 March 2018)	512 605	347 368
Mr JDJ Barnes (appointment: 1 December 2017)	289 680	158 059
Miss C Burger (resignation: 30 November 2017)	-	102 902
Mr MA Lebaka	364 846	300 647
Mr TS Moqhoishi	289 680	280 246
Miss AN November	289 680	280 246
Mr XW Nqelani	359 176	347 068
Mr MC Ntemane	359 176	349 046
Mr TV Nthapo	289 680	280 246
Mr MJ Phaliso	289 680	280 246
Mr MT Rens (resignation: 28 February 2018)	-	231 379
Mr PV Mlozana (appointment: 1 June 2018)	321 627	-
Miss PM Dibe (appointment: 1 April 2018)	72 420	-
	3 991 114	**3 747 106**

43. Related parties (continued)

Related party transactions

Compensation of councillors		
Basic remuneration	3 171 366	3 161 629
Telephone allowance	485 055	464 736
Car allowance	93 600	109 500
Acting allowance	153 429	-
Travel and subsistence (re-imbursement)	87 664	11 241

No related party transactions were identified during the year.

44. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2018

	As previously reported	Correction of error	Restated
Inventories	2 677 159	(10 595)	2 666 564
Receivables from Exchange Transactions	60 779 193	(4 259)	60 774 934
Receivables from Non-exchange Transactions	27 849 374	817 887	28 667 261
Other receivables from exchange transaction	376 848	523 011	899 859
Vat receivable	14 749 646	(562 798)	14 186 848
Cash and Cash Equivalents	2 646 779	(523 011)	2 123 768
Investment Property	237 277 795	(155 192 000)	82 085 795
Property, Plant and Equipment	737 871 661	896 286	738 767 947
Finance lease obligation (Current)	(492 155)	(284 659)	(776 814)
Payables from Exchange Transactions	(52 893 322)	29 223	(52 864 099)
Finance lease obligation (Non-Current)	(590 466)	285 982	(304 484)
Accumulated Surplus / (Deficit)	(976 748 505)	154 024 933	(822 723 572)
	53 504 007	**-**	**53 504 007**

Statement of financial performance

2018

	As previously reported	Correction of error	Restated
Property rates	(14 677 646)	(824 947)	(15 502 593)
Public Contributions and Donations	-	(2 187 136)	(2 187 136)
Service charges	(46 120 924)	4 254	(46 116 670)
Rental of Facilities and Equipment	(584 638)	602	(584 036)
Other income	(433 537)	(79 621)	(513 158)
Employee Related Costs	49 073 459	745 210	49 818 669
Depreciation and Amortisation	44 090 400	752 417	44 842 817
Finance Costs	2 232 073	298 762	2 530 835
Repairs and Maintenance	420 847	(93 247)	327 600
Professional and consulting fees	12 201 268	1 700 644	13 901 912
General Expenses	17 679 823	689 334	18 369 157
Loss on Disposal of PPE	(451 538)	(282 264)	(733 802)
Fair value adjustment	(9 378 877)	6 144 652	(3 234 225)
Inventories losses/write-downs	1 133 853	101	1 133 954
Surplus for the year	**55 184 563**	**6 868 761**	**62 053 324**

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)

Errors

The following prior period error adjustments occurred:

Correction to bank balances

During the preparation of the 2018 financial statements, misallocations were made which was subsequently corrected by management.

The effect of the correction is as follows:

	2019	2018
Increase (decrease) in Cash and cash equivalents	(523 011)	(523 011)
(Increase) decrease in Other receivables from exchange transactions	523 011	523 011
	-	-

Correction to Property, plant and equipment

During the preparation of the 2019 fixed asset register, certain adjustment had to be made to the cost price and accumulated depreciation due to physcial verification, condition assessment , etc.

The effect of the correction is as follows:

	2019	2018
Increase (decrease) in Property, plant and equipment	582 329	582 329
(Increase) decrease in Accumulated surplus	(582 329)	(560 877)
Increase (decrease) in Depreciation and amortisation expense	-	(18 594)
Increase (decrease) in Loss with disposal of assets and liabilities	-	(2 858)
	-	-

Finance lease adjustment

During the 2018 audit, findings were raised in respect to the finance lease liability (Nashua leases), based on the addendum. Management revisited the amortisation schedules and the adjustments were made retrospectively.

The effect of the correction is as follows:

	2019	2018
Increase (decrease) in Property, Plant and Equipment	2 166 457	2 166 457
(Increase) decrease in Long-term liabilities (Non-current)	285 982	285 982
(Increase) decrease in Long-term liabilities (Current)	(284 659)	(284 659)
(Increase) decrease in Public contributions and donations	(2 167 780)	(2 187 136)
Increase (decrease) in Finance cost	-	298 762
Increase (decrease) in Loss with disposal of PPE	-	(279 406)
	-	-

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)

Investment property corrections

Management revisited their investment property and the accounting thereof, taking into consideration the guidance provided in IGRAP 18. The changes were made in accordance with the requirement of the aforementioned intepretation.

The effect of the correction is as follows:

Increase (decrease) in Property, plant and equipment	(155 192 000)	(155 192 000)
Increase (decrease) in Investment property	155 192 000	149 047 348
(Increase) decrease in Accumulated surplus	-	6 144 652
	-	-

Salary control account reconciliation

Management revisited its salary control account and corrected the outstanding balance to ensure it is supported by valid documentation at yearend. The adjustment was made retrospectively.

The effect of the correction is as follows:

(Increase) decrease in Payables from exchange transactions	(676 214)	(676 214)
(Increase) decrease in Other income	-	(79 621)
(Increase) decrease in Accumulated surplus	676 214	-
Increase (decrease) in Employee related cost	-	755 835
	-	-

Consulting and professional fees

During the prior year a number classification issues were identified. Management revisited these classification issues are subequently corrected these.

The effect of the correction is as follows:

(Increase) decrease in Property rates	-	84 965
(Increase) decrease in Rental of Facilities and Equipment	-	602
Increase (decrease) in Employee related cost	-	63 320
Increase (decrease) in Repairs and Maintenance	-	(420 847)
Increase (decrease) in Professional and consulting fees	-	(664 184)
Increase (decrease) in General expenses	-	936 043
Increase (decrease) in Inventories losses/write-downs	-	101
	-	-

Trade and other payables

During the prior year a number of creditors needed to be adjusted.

The effect of the correction is as follows:

(Increase) decrease in Inventories	(10 595)	(10 595)
(Increase) decrease in VAT receivable	(562 798)	(562 798)
Increase (decrease) in Trade and other payables	705 437	705 437
Increase (decrease) in Property rates	-	(92 025)
Increase (decrease) in Bulk purchases	-	228 632
Increase (decrease) in General expenses	-	2 143 143
Increase (decrease) in Accumulated surplus / Deficit	(132 044)	(2 411 794)
	-	-

Figures in Rand	2019	2018

44. Prior-year adjustments (continued)

Project transfered of project correction

During the prior year during fisical verification we identified that we had to account for a project that needs to be transfered.

The effect of the correction is as follows:

Increase (decrease) in Accumulated surplus / Deficit	376 536	376 536
Increase (decrease) in Property, plant and equipment	(376 536)	(376 536)
	-	-

Leased assets

During the prior year a number classification issues were identified. Management revisited these classification issues are subequently corrected these.

The effect of the correction is as follows:

Increase (decrease) in Property, plant and equipment	(1 475 964)	(1 475 964)
Increase (decrease) in Depreciation and amortisation expense	-	771 010
Increase (decrease) in Accumulated surplus / Deficit	1 475 964	704 954
	-	-

Receivables from exchange transactions

During the prior year a number classification issues were identified. Management revisited these classification issues are subequently corrected these.

The effect of the correction is as follows:

Increase (decrease) in Receivables from exchange transactions	(4 259)	(4 259)
Increase (decrease) in Receivables from non-exchange transactions	817 887	817 887
Increase (decrease) in Property rates	(813 628)	(817 887)
Increase (decrease) in Service charges	-	4 259
	-	-

Leased assets

During the prior year a number classification issues were identified. Management revisited these classification issues are subequently corrected these.

The effect of the correction is as follows:

Increase (decrease) in Property, plant and equipment	(161 473)	(161 473)
Increase (decrease) in Accumulated surplus / deficit	161 473	161 473
Increase (decrease) in Public contributions and donations	-	933 619
Increase (decrease) in Depreciation and amortization	-	(526 975)
Increase (decrease) in Loss on disposal of property, plant and equipment	-	(118 499)
Increase (decrease) in Nett gains / (losses not recognised in the Statement of Financial Position	-	(288 145)
	-	-

Trade and other payables

During the prior year a number classification issues were identified. Management revisited these classification issues are subequently corrected these.

44. Prior-year adjustments (continued)

The effect of the correction is as follows:

	2019	2018
Increase (decrease) in Trade and other payables	(15 681 027)	(15 681 027)
Increase (decrease) in Accumulated surplus / deficit	15 681 027	15 681 027
	-	-

Change in accounting policy

No change in accounting policies occurred during the year under review.

45. Financial instruments disclosure

Categories of financial instruments

2019

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	126 471	-	126 471
Receivables from exchange transactions	-	61 282 438	61 282 438
Receivables from non-exchange transactions	-	27 275 859	27 275 859
Other receivables from exchange transactions	-	522 878	522 878
Cash and cash equivalents	3 703 777	-	3 703 777
	3 830 248	**89 081 175**	**92 911 423**

Figures in Rand	2019	2018

45. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Finance lease liability	338 186	338 186
Payables from exchange transactions	61 162 741	61 162 741
Consumer deposits	732 877	732 877
Unspent conditional grants and receipts	55 010 777	55 010 777
	117 244 581	**117 244 581**

2018

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	119 855	-	119 855
Receivables from exchange transactions	-	60 774 934	60 774 934
Receivables from non-exchange transactions	-	28 667 261	28 667 261
Other receivables from exchange transactions	-	899 859	899 859
Cash and cash equivalents	2 123 768	-	2 123 768
	2 243 623	**90 342 054**	**92 585 677**

Financial liabilities

	At amortised cost	Total
Finance lease liability	1 081 299	1 081 299
Payables from exchange transactions	37 183 072	37 183 072
Consumer deposits	781 696	781 696
Unspent conditional grants and receipts	40 930 853	40 930 853
	79 976 920	**79 976 920**

46. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department: Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function. Further quantitative disclosures are included throughout these annual financial statements.

It is the policy of the municipality to disclose information that enables the user of its annual financial statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial environment.

Liabilities that are settled by delivering cash or another financial asset. The municipality’s approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality’s reputation.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

Ultimate responsibility for liquidity risk management rests with the Council, which has built an appropriate liquidity risk management framework for the management of the municipality’s short, medium and long-term funding and liquidity management requirements. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The municipality ensures that it has sufficient cash on demand or access to facilities to meet expected operational expenses through the use of cash flow forecasts.

46. Risk management (continued)

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Cash and cash equivalents:

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with ABSA Bank, First National Bank, Nedbank and Standard Bank.

Receivables from exchange and non-exchange transactions:

Receivables from exchange and non-exchange transactions are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

The application of section 118(3) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property.

- A new owner is advised, prior to the issue of a revenue clearance certificate, that any debt remaining from the previous owner will be transferred to the new owner, if the previous owner does not settle the outstanding amount.
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA.
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually.
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of financial position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an ongoing customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

46. Risk management (continued)

Long-term receivables and other debtors are individually evaluated annually at reporting date for impairment or discounting.

A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment /discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

Market risk

Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with ABSA Bank and First National Bank. No investments with a tenure exceeding twelve months are made.

Consumer debtors (included in Receivables from exchange and non-exchange transactions) comprise of a large number of ratepayers, dispersed across different industries and geographical areas.

Consumer debtors are presented net of a provision for impairment.

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer deposits are increased accordingly.

Long-term receivables and other debtors are individually evaluated annually at the reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial assets and Financial liabilities are detailed in the Credit Risk Management section of this note.

Price risk

Although shares are held by the municipality, it is not exposed to equity price risks arising from equity investments as the municipality does not actively trade in these investments and the balance is immaterial to the municipality's operations.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

47. Irregular expenditure

	2019	2018
Opening balance	282 849 977	181 065 693
Add: Current year irregular expenditure	27 592 472	25 264 497
Add: Current year irregular expenditure (identified during the audit)	-	26 841 113
Add: Prior year expenditure identified in the current year	-	22 901 391
Add: Prior year expenditure identified in the current year (identified during the audit)	-	26 777 283
	310 442 449	**282 849 977**

48. Fruitless and wasteful expenditure

	2019	2018
Opening balance	3 751 981	2 376 360
Add: current year fruitless and wastefull expenditure	1 028 633	1 375 621
	4 780 614	**3 751 981**

The fruitless and wasteful expenditure for the current year is represented by interest levied on overdue payables due to cash flow constraints experienced by the municipality.

49. Unauthorised expenditure

	2019	2018
Opening balance	306 197 325	241 326 287
Add: Current year unauthorised operating expenditure	86 266 767	62 187 685
Add: Current year unauthorised capital expenditure	-	2 683 353
	392 464 092	**306 197 325**

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2019	2018
Opening balance	(16 096)	(16 096)
Current year subscription / fee	557 250	516 110
Amount paid - current year	(557 250)	(516 110)
	(16 096)	**(16 096)**

Distribution losses

Electricity	**Lost units**	**Tariff**	**Value**
Unaccounted Electricity Losses	8 452 998	1,15	9 758 739
Unaccounted Electricity Losses	8 743 793	1,08	9 463 860

Electricity losses occur due to inter alia, technical and non-technical losses. Techncial losses include inherent resistance of conductors, transformers and other electrical equipment, whilst Non-techncial losses include the tampering of meters, incorrect ratio used on bulk meters, faulty meters and illegal connections. The problem with tampered meters and illegal connections is an ongoing basis, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

	2019	2018
Volumes in kWh per year	-	-
System input volume	21 482 182	21 024 341
Billed consumption	(13 029 184)	(12 280 548)
	8 452 998	**8 743 793**
Percentage distribution loss (%)	39,35 %	41,59 %

Figures in Rand	2019	2018

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Water	**Lost units**	**Tariff**	**Value**
Unaccounted Water Losses	2 069 524	1,16	2 409 653
Unaccounted Water Losses	2 647 995	0,67	1 776 317

Water losses occur due to inter alia, tampering of meters, incorrect ratio used on bulk meters, faulty meters and illegal connections. The problem with tampered meters and illegal connections is an ongoing basis, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

	2019	2018
Volumes in kWh per year	-	-
System input volume	2 966 688	5 521 170
Billed consumption	(897 164)	(2 873 175)
	2 069 524	**2 647 995**
Percentage distribution loss (%)	69,76 %	47,96 %

Audit fees

	2019	2018
Opening balance	313 288	11 852
Current year subscription / fee	1 806 970	3 186 932
Amount paid - current year	(1 058 828)	(2 885 496)
Credit notes - current year	(341 202)	-
	720 228	**313 288**

PAYE, UIF and SDL

	2019	2018
Opening balance	648 332	-
Current year subscription / fee	8 625 635	7 057 894
Amount paid - current year	(8 549 348)	(6 409 562)
	724 619	**648 332**

Pension and medical aid fund contributions

	2019	2018
Opening balance	(269 862)	-
Current year subscription / fee	9 398 635	7 490 748
Amount paid - current year	(8 612 291)	(7 220 886)
Amount paid - previous years	(269 862)	-
	786 344	**269 862**

The balance represents pension and medical aid fund contributions deducted from employees and councillors in June 2019 payroll, as well as the municipality's contribution to these funds.

VAT

	2019	2018
VAT receivable	18 620 240	14 186 848

VAT output payables and VAT input receivables are based on the amounts due/payable to SARS and on outstanding debtors and creditors as at year end.

50. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2019:

30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mrs TI Reachable	8	34	42
Mr SJ Bahumi	683	38 057	38 740
Mr JDJ Barnes	319	771	1 090
Mr MA Lebaka	372	145	517
Mr TS Moqhoisi	-	61	61
Miss AN November	359	5 825	6 184
Mr XW Nqelani	477	19 889	20 366
Mr MC Ntemane	-	93	93
Mr TV Nthapo	448	16 526	16 974
Mr MJ Phaliso	-	45	45
Mr PV Mlozana	466	18 452	18 918
	3 132	**99 898**	**103 030**

30 June 2018	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mrs TI Reachable	79	-	79
Mr SJ Bahumi	968	31 542	32 510
Mr JDJ Barnes	224	-	224
Mr MA Lebaka	665	-	665
Mr TS Moqhoisi	893	568	1 461
Miss AN November	909	3 086	3 995
Mr XW Nqelani	2 702	15 082	17 784
Mr MC Ntemane	819	3 344	4 163
Mr TV Nthapo	784	12 108	12 892
Mr MJ Phaliso	806	1 197	2 003
	8 849	**66 927**	**75 776**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

The municipality maintains a detailed register at its offices.

Incident	2019	2018
Emergency procurement	132 675	355 438
Sole providers	1 034 163	10 918
Security	5 069 592	-
Repairs	549 334	-
	6 785 764	**366 356**

51. Non-compliance with the MFMA

Chapter	Section	Description
4	32	The municipality incurred costs during the year that meets the definition of unauthorised, fruitless and wasteful and irregular expenditure.
8	62	Not all general financial management function requirements were adhered to during the year, as not all controls operated effective and efficiently.
8	64	Not all revenue management requirements were met as not all controls operated effective and efficiently throughout the year.
8	65	Not all expenditure management requirements were met as not all controls operated effective and efficiently throughout the year.
8	65	Due to financial constraints, not all invoices were paid within the legislative 30-days deadline.
14	166	The MFMA requirements for the audit committees were not complied with throughout the financial year.

52. Contingencies

Contingent liabilities

The municipality had the following contingent liabilities at 30 June 2019:

- **Telkom SA Limited**: The claimant is suing the municipality for outstanding fees. The possibility of a present obligation does exist, but due to the fact that the municipality has not been provided with any form of supporting documentation to support the claim, the probability of the obligation is remote. The matter is still pending. Due to the fact that management has not been furnished with any supporting documentation, it is impracticable to determine the amount.

- **Ducharme Consulting (Pty) Ltd**: The claimant was appointed by the municipality to prepare the 2017 annual financial statements. The amount billed exceeded the project amount and it is claimed that the additional costs incurred were due to requests from management. The matter is still pending and no resolution has been taken to date. Management is however of the opinion that the possibility of a present obligation is low as the contract price was fixed.

- **Nomano, Makamohelo and MBB JV**: The claimant is claiming funds for work performed on the Waste Water Treatment Works in Jacobsdal. The supporting information has been requested to support the claim, but to date no information has been provided. The municipality is of the opinion that the claim will not succeed. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

- **Vula Trust and Lucas Ramohlaba**: The municipality paid the disputed invoices of R143 340 for the rental of machinery, but due to fraud on the side of the claimant, invoices with the incorrect bank account details were submitted. The municipality is of the opinion that as the fraud occurred on the side of the claimant, the matter should be handled by them and the municipality fulfilled its obligation. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

- **Omphi Nobuhle Trading and Ramathobo Enterprise CC JV (Construction of sports grounds)**: The site was abonded by the claimant due to cashflow constraints. In order to finalise the project, management wanted to readvertise the project, but the claimant claimed that they should be allowed to finalise the project and in order to do that, they requested funds to be paid. The municipality is of the opinion that all funds have been paid and have requested supporting documentation to collaborate their claim - to date no information has been received. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

52. Contingencies (continued)

- **Net 15**: During an investigation it was found that the website hosting costs exceeded the allowed and agreed-upon project cost. The contract was cancelled based on irregularities identified. Net 15 is claiming the outstanding fees. The municipality is of the opinion that the claim will not succeed. It is possible, but not probable that a present obligation exist, but the possibility of outflow of resources is low.

53. Events after the reporting date

No events occured after the reporting date.

54. Budget differences

Material differences between budget and actual amounts

Material difference between the adjusted budget and actual amounts are deemed material if it differs with more than 10%. The following is reasons for the material differences identified:

Statement of financial performance

Dividends received: In the prior year, dividends were received and based on this, an amount was budgeted for. The municipality however did not receive any dividends during the current year.

Interest on outstanding receivables: Although the municipality did provide / budget for interest on outstanding receivables, more revenue was generated that anticipated. This due to the slow recovery of outstanding debtors. Furthermore, the concept to understand why, in unforeseen circumstances, debtors could not settle their accounts in a timeously manner was also a reason as to why the budgeted revenue was exceeded.

Interest earned on external investments: During the year management invested surplus fund on a regular basis in call deposit accounts. This resulted in more interest being generated on the external investments than was anticipated.

Rental of facilities and equipment: The municipality did not anticipate that rental income will be levied as agreed upon in the rental agreements.

Licences and permits: Although budgeted for separately, the municipality received immaterial licence and permit fee revenue. For this reason, it was classified as Other income in the Statement of financial performance.

Other income: Management anticpiated that more income will be generated through direct income, which did not materialise..

Property rates: The lastest valuation roll came into effect on 1 July 2018. The increase is due to a combination of the increases in the value of the properties and the tariff increases.

Fines and penalties: The decrease is as a result of less fines that were issued during the year.

Employee related cost: Due to the movement in the defined benefit obligations (post-employment medical aid liability and long service awards) and the annual salary increases.

Debt impairment: The budgeted figure was based on the expectation that the same movement would be required as in the previous financial year. This was however not the case, resulting in the budget being overspend. Currently, due to the financial constraints within the community, the recoverability of debtors are not at the desired levels.

Depreciation and amortisation: During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current assets, and as a result thereof, a increase in the depreciation and amortisation expense.

Impairment loss: During the aforementioned verification, assets were identified which conditions detoriated. These losses were not unforeseen and therefore not budgeted for. The main contributor is the unrest by the community during the end of the 2018 fiscal year.

54. Budget differences (continued)

Finance cost: Although the municipality did not have overdraft facilities whereby interest were charged, the budget was exceeded due to interest being charged on overdue accounts as well as the unwinding of the interest applicable to the provision for the rehabilitation of the landfill sites.

Repairs and maintenance: Due to the municipality's financial difficulties and due to cost cutting measures, the expected budget was not achieved.

Professional and consulting fees: Due to the municipality's financial difficulties and due to cost cutting measures, the expected budget was not achieved.

General expenses: Although the budgeted expense was overspent as per the Statement of comparison of budget and actual amounts, the actual expense in respect to the contracted services are classified as general expenses. If this is taken into account, there is no material fluctuation between the budgeted and actual amounts.

Bulk purchases: Eskom made material adjustment to the account, which was not anticpated and budgeted for.

Loss on disposal of assets: Due to assets written-off in the current year as a result of damage caused by the community..

Fair value adjustments: The fair value adjustments are due to other financial assets and investment property being carried at fair value. During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current assets, and as a result thereof, a increase in the fair value of the investment property.

Actuarial gains: This represents the gains in employee benefit obligations. As this represents a "non-cashflow" movement, management did not provide / budget for it.

Inventory losses / write-downs: Due to lack of internal controls over maintenance materials and stationary, items were written off during the year. As these represent controls within the municipality, management did not provide / budget for it. Statement of financial position

Statement of financial position

Inventories: The decrease is a result of more stock being consumed during the year than anticipated.

Receivables from exchange and non-exchange transactions: The provision for doubtful debt movement resulted in the closing balance being significantly lower than anticipated..

Other receivables from exchange transactions: Although budgeted for, these debtor types are not within the municipality's normal business and therefore does not have control over it.

VAT receivable: The immaterial balance budgeted for at yearend was due to the expectation that the municipality would have received all outstanding VAT refunds from the South African Revenue Services. At yearend, a significant balance is still to be recovered.

Cash and cash equivalents: The increase in the cash and cash equivalents is directly attributed to the unspent conditional grants increase at yearend.

Investment property: During the year, management embarked on a process whereby all assets were identified and physically verified to ensure the validity, accuracy and completeness of the municipality's asset register. This resulted in a material increase of the carrying amounts of the non-current asset, including Investment property.

Intangible assets: During the year the previous financial year, the municipality purchased SAGE software amounting to R1 006 976. The expectation was that the system would have amortised quicker than it actually did.

Heritage assets: No balance was budgeted for, as it is immaterial to the municipality's operations.

Other financial assets: The municipality utilised investment accounts during the year and these accounts were closed although management provided / budget for it.

54. Budget differences (continued)

Finance lease obligations: During the year the municipality entered into new finance lease agreements. Due to cashflow constraints and the need for the equipment, these were acquired although not budgeted for.

Payables from exchange transactions: Due to the municipality's financial difficulties, it is not able to meet its short term commitments and therefore the desired budgeted results cannot be achieved.

Employee benefit obligations: Due to the municipality's financial difficulties this was not provided / budgeted for.

Unspent conditional grants and receipts: The municipality anticipated that all grants received and paid will be utilised for the year, therefore no amount was budgeted for.

Provisions: The landfill sites operated by the municipality were physically inspected and a professional valuation was performed to estimate the future liability. This resulted in a material prior period adjustment.

55. Going concern

We draw attention to the fact that at 30 June 2019, the municipality had an accumulated surplus (deficit) of R 793 189 222 and that the municipality's total liabilities exceed its assets by R 793 189 222.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Management considered the following matters relating to the going concern assumption:

- The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.
- The municipality’s budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.
- As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors’ collection rates and creditors’ payment terms are closely monitored and the necessary corrective actions instituted.
- The ability of the municipality to continue as a going concern is dependant on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- Deficit of R45 053 911 (2018: R2 762 904) was realised, Government grants and subsidies contributed R 95 538 076 (2018: R79 495 430).
- The municipality's unspent conditional grants for the current year amounted to R55 010 777 (2018: R40 930 853). This is an indication that monies received are not utilised for the specific projects under construction and should be paid back to the relevant parties.
- The creditors are not paid within 30 days as required by the MFMA due to cash constraints.
- Debt collection period has not improved during the current financial year.
- The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets should be impaired (GRAP 104). A provision for doubtful debt amounting to R145 625 076 (2018: R101 289 765) has been disclosed in the financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2019	2018

55. Going concern (continued)

- As at 30 June 2019 the municipality's current liabilities amounted to R117 632 769 (2018: R80 165 435), whilst the current assets amounted to R114 086 341 (2018: R109 319 234).

- The current and acid test ratios are below the required ratio of 2:1 and 1:1, respectively.

Management have considered the risks, but based on their evaluation of the following mitigating factors have concluded that the going concern assumption is appropriate for the following 12 months:

- The Letsemeng Local Municipality is a municipality within the local government sphere. Currently, in the municipal environment, municipalities within South Africa rely heavily on government's financial assistance through the provision of grants. For the 2020 financial year, the allocated Equitable Share allocation amounts to R63 091 000 and the Financial Management Improvement Grant to R2 435 000.

- No intention by government has been identified that indicates the discontinuing of financial assistance through the provision of government grants. The DoRA and the Division of Revenue Bill, 2018 furthermore disclosed government's proposed allocation of the 2020 and 2021 financial years. This is evidence of government's continued financial support to be provided to the municipality for the following 36 months.

- The municipality has not been placed under administration for the 12 months ending 30 June 2019.